

STATE OF UTAH INSURANCE DEPARTMENT
FINANCIAL EXAMINATION REPORT
OF

SECURITY NATIONAL LIFE INSURANCE COMPANY
OF

SALT LAKE CITY, UTAH

AS OF

DECEMBER 31, 2001

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August 7, 2003

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Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

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Secretary, Western Zone, NAIC
Montana Department of Insurance
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Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of December 31, 2001, of the financial condition and business affairs of

SECURITY NATIONAL LIFE INSURANCE COMPANY
of
Salt Lake City, Utah

a stock life insurance company, hereinafter referred to as the Company.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 1998. The current examination covers the period from January 1, 1999, through December 31, 2001, including any material transactions and/or events occurring subsequent to the examination date noted during the course of this examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the state of Utah Insurance Department (Department), and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2001. Assets were verified and valued, and liabilities were determined or estimated.

The Company retained a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiners access and provided copies of requested working papers prepared in connection with its audits. The use of the firm's working papers did not significantly affect the nature and extent of examination procedures performed.

A letter of representation certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

Important points and recommendations noted in the prior examination report have been addressed by the Company.

HISTORY

General

The Company was organized on January 31, 1967, as Tower Life and Accident Insurance Company, an Illinois corporation. The Company changed its domicile to the State of Florida on August 29, 1989. On January 1, 1990, the Company merged with its insurance subsidiary, Capital Investors Life Insurance Company, and subsequently changed its name to Capital Investors Life Insurance Company.

In December of 1994, the Company changed its domicile from Florida to Utah and adopted new articles of redomestication and new bylaws as part of the redomestication process. These documents were filed with and approved by the Department on

December 28, 1994. On December 29, 1994, the Company was issued a Utah Certificate of Authority to transact life, annuity and disability insurance.

The Company became a part of Security National Financial Corporation holding company system in December of 1994, when it was acquired from Suncoast Financial Corporation. Security National Financial Corporation was originally created as S.N.L. Financial Corporation in an October 9, 1979, reorganization.

In August of 1987, S.N.L. Financial Corporation registered its stock under Section 12(G) of the Securities Exchange Act of 1934 and completed a public offering of its common stock. In December of 1990, S.N.L. Financial Corporation changed its name to Security National Financial Corporation.

In December of 1995, the Company merged with Security National Life Insurance Company, a Utah domiciled insurer, and Civil Service Employees Life Insurance Company, a California domiciled insurer, with the Company being the surviving corporation. Then in March 1996, the Department approved articles of amendment to the articles of redomestication to change the Company's name to Security National Life Insurance Company.

No amendments to the articles of incorporation or bylaws were noted during the period covered by this examination.

As of December 31, 2001, the Company's authorized lines of insurance were life, annuity and disability.

Capital Stock

The Company was authorized to issue 10,000 shares of preferred stock with a par value of \$170 per share and 50,000 shares of common stock with a par value of \$170 per share. As of December 31, 2001, no preferred stock was issued. Fifteen thousand shares of common stock were issued and outstanding for total capital stock of \$2,550,000. As of December 31, 2001, Security National Financial Corporation, held all of the Company's outstanding common stock.

Dividends to Stockholders

The Company neither declared nor paid any dividends during the examination period.

Management

Management of the Company is vested in its board of directors. As of December 31, 2001, the following individuals were serving as directors of the Company:

<u>Name and Location</u>	<u>Principal Occupation</u>
Charles Lee Crittenden Ogden, Utah	Retired
Robert Gail Hunter Sandy, Utah	Physician
Howard Craig Moody Sandy, Utah	Owner of Moody & Associates
George Robert Quist Salt Lake City, Utah	Chairman, President and Chief Executive Officer Security National Financial Corporation
Scott Milton Quist Sandy, Utah	First Vice President, General Council and Treasurer Security National Financial Corporation
William Copley Sargent Salt Lake City, Utah	Senior Vice President and Secretary Security National Financial Corporation
Norman Gilbert Wilbur Plano, Texas	Executive Director Dallas Area Habitat for Humanity

William Copley Sargent passed away on February 1, 2002, and was replaced by Lynn Beckstead.

Officers of the Company serving at December 31, 2001, were as follows:

<u>Name</u>	<u>Title</u>
George Robert Quist	President and Chief Executive Officer
William Copley Sargent	Senior Vice President and Secretary
Scott Milton Quist	First Vice President, General Counsel, Treasurer and Chief Operating Officer
Stephen McEntire Sill	Vice President, Controller and Chief Financial Officer
Diana Carroll Olson	Vice President and Assistant Secretary
Christie Quist Overbaugh	Vice President-Underwriting
Salli Richards Stewart	Vice President-Policyholder Services
Brice Paul	Vice President-Sales
John Wayne Van Valkenburg	Vice President-Product Development

Committee members as of December 31, 2001, were:

Executive Committee

George Robert Quist, Chairman
Scott Milton Quist
William Copley Sargent
Howard Craig Moody

Compensation Committee

George Robert Quist, Chairman
Norman Gilbert Wilbur
Charles Lee Crittenden

Audit Committee

Charles Lee Crittenden, Chairman
Howard Craig Moody
Norman Gilbert Wilbur

Conflict of Interest Procedure

During the period covered by the examination, conflict of interest statements were completed annually by directors and officers of the Company.

Corporate Records

The records generated for and during the period covered by the examination were reviewed. The records consisted of the minutes of the meetings of the board of directors, shareholder and committees. Several of the board of directors, committee and shareholder meeting minutes were not official corporate records, as they were not signed by an officer of the Company. During the examination the Company provided the signed minutes.

From December 1, 1999, through July 12, 2000, two individuals served as directors who were not appointed by the shareholder. The lack of the appointment of a director does not comply with the requirements of article 3.3 of the amended bylaws.

The Company did not provide evidence of executive committee meeting minutes from January 1, 1999 through December 31, 2001, nor were compensation committee meeting minutes provided for the year 2001. The Company's 1999, 2000 and 2001 Annual Statements filed with the Department answered, "Yes" as the reporting entity keeping complete permanent records of the proceedings of its board of directors and all subordinate committees thereof.

On January 2, 2002, the Company paid a cash dividend of \$1,481,687 to Security National Financial Corporation. Pursuant to U.C.A. §16-10a-1601, the minutes did not evidence the board of directors approval of the dividend. During the examination, effective July 11, 2003, the cash dividend was approved by unanimous written consent by the board of directors.

The prior examination report as of December 31, 1998, was distributed to the board in March 2001.

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

On June 30, 1999, the Company entered into a coinsurance and assumption agreement with Menlo Life Insurance Company wherein the Company assumed 100% of Menlo's in force policies. The agreement became effective when it was approved by Menlo Life Insurance Company's state of domicile, Arizona, on September 9, 1999, and by the state of California on December 9, 1999.

The Company received in consideration, from Menlo Life Insurance Company on September 25, 2001, \$308,978 in policy loans and \$2,269,403 in cash. The total consideration received by the Company was equal to the liabilities assumed.

Surplus Debentures

The Company had a \$2,000,000 surplus debenture outstanding. The debenture was originally issued in connection with a loan agreement between Suncoast Financial Corporation and the Company dated, January 30, 1989. The debenture cannot be repaid without the prior approval of the Commissioner of Insurance of the State of Florida; or if the payment would reduce the Company's surplus below \$2,000,000.

The Company also had a \$1,000,000 surplus debenture outstanding. The debenture was originally issued to Southern Security Life Insurance Company and was acquired by Security National Financial Corporation in December 1998. The debenture was issued in connection with a cash contribution to Southern Security Life Insurance Company by Consolidare Enterprises, Inc., dated December 7, 1988. The debenture cannot be returned and/or repaid without the prior approval of the Florida Department of Insurance, or if the payment would reduce Southern Security Life Insurance Company's surplus below \$1,750,000.

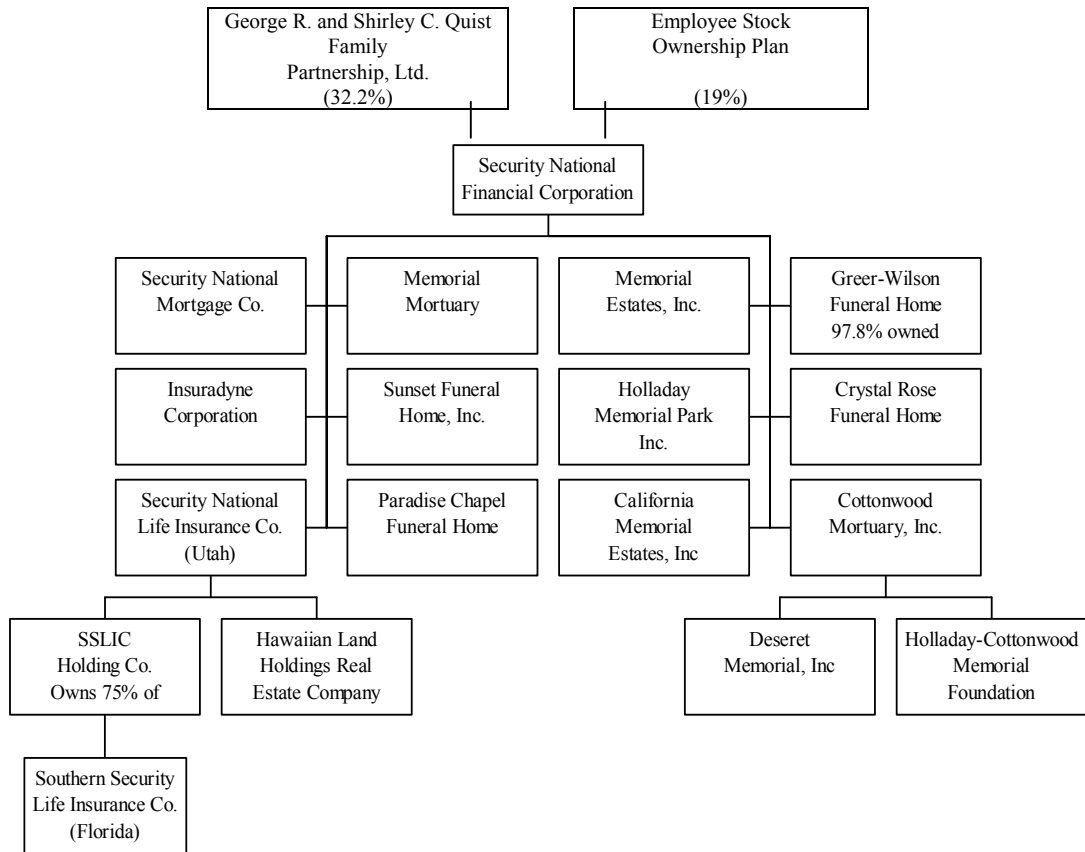
In consideration for the assignment of the Southern Security Life Insurance Company surplus note from Security National Financial Corporation to the Company, the Company agreed to execute a surplus note with Security National Financial Corporation effective December 31, 2000.

Both of the substituted surplus debentures specify that payment of principal and interest may be made only with the prior written consent of the Utah Insurance Commissioner and only if the total capital and surplus of the Company, after such payment, equals or exceeds the Company's Authorized Control Level Risk Based Capital.

As of December 31, 2001, the Company's outstanding balance on the two surplus debentures was \$2,000,000 and \$1,000,000, respectively.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system shown in the following organization chart as of December 31, 2001.



As of December 31, 2001, the George R. and Shirley C. Quist Family Partnership, LTD., and the Employee Stock Ownership Plan beneficially owned 32.2% and 19% of Security National Financial Corporation's common stock, respectively. During June 2000, both entities, George R. Quist and the Company filed updated disclaimers of affiliation with the Department in accordance with U.C.A. §31A-16-105(10).

Cost-sharing agreements and significant regulatory information concerning parent, subsidiaries, and affiliates

On June 1, 1991, the former Security National Life Insurance Company entered into a Management/Service Agreement with Security National Financial Corporation. Under the agreement, Security National Financial Corporation provided investment and marketing services to the Company for \$35,000 per month. The agreement required Security National Financial Corporation's subsidiaries to market exclusively the Company's products with the marketing costs to be borne by Security National Financial Corporation.

Since the 1995 merger, Security National Financial Corporation has provided the Company with computer software to administer its business for a fee of \$9,700 per month.

Effective December 17, 1998, the Company entered into an allocation agreement with Security National Financial Corporation to allocate costs incurred pursuant to an administrative services agreement between Security National Financial Corporation and Southern Security Life Insurance Company. Under the administrative services agreement, Security National Financial Corporation agreed to provide Southern Security Life with certain defined administrative and financial services including accounting services, financial reports and statements, actuarial, policyholder services, underwriting, data processing, legal, building management, market advisory services and investment services in return for a monthly fee of \$250,000.

Under the allocation agreement, Security National Financial Corporation agreed to compensate the Company for any administrative and financial services that it provided to Southern Security Life under the administrative services agreement based on a method to be mutually agreed upon by Security National Financial Corporation and the Company. The method is required to include reimbursement to the Company for its direct costs in providing such services, plus an allocation for overhead.

Pursuant to a real estate contract of sale entered into in 1984 by the former Security National Life Insurance Company with Memorial Estates, Inc., the Company owned real estate with a December 31, 2001, book value of approximately \$2,300,000.

In 1993, the Company and Security National Mortgage Company entered into a "Loan Funding Fee Agreement" wherein residential mortgage loans originated by Security National Mortgage Company are assigned to the Company and the Company funds and becomes the owner.

During 1994 and 1995, the Company entered into mortgage loan participation agreements with several of its affiliates. These agreements permitted the affiliates to participate in the gains and losses of the Company's commercial mortgage loans. On February 10, 1997, the Company entered into an investment pooling arrangement with several of its affiliates. These agreements gave the Company the exclusive right to

choose the assets and to alter the terms, conditions or agreements pertaining to the investments held in the pool.

As of the examination date, Security National Financial Corporation (SNFC) pledged the Company's stock as security for approximately \$5,555,310 in bank loans. The Company and SNFC jointly maintained a \$2,000,000 line of credit with a bank, none of which was encumbered as of December 31, 2001.

Subsequent to the examination date, the Company executed an agreement for the exchange of services, effective February 16, 1999, with SNFC. The exchange of services allowed Company agents to utilize Paradise Chapel office space located in Arizona. In exchange, the Company allowed Paradise Chapel the use of its vacant land as parking. Their respective exchanged services is \$2,000.00 per month.

As of the examination date, the Company's annual statement included the following assets resulting from affiliate transactions (excluding investment income due & accrued):

Annual Statement	
<u>Asset</u>	<u>Admitted Value</u>
Common Stocks - Parent	\$ 317,209
Subsidiary	7,812,702
Mortgage Loans - Affiliates	616,287
Real Estate - Contract of Sale - Affiliates	2,315,721
Investment - Affiliates	266,749
Collateral Loans - Parent	31,960
	<u>\$ 11,360,628</u>

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested in the NAIC Examiners Handbook for an insurer of the Company's size and premium volume is not less than \$500,000. At the examination date, the Company had coverage in effect subject to a single loss limit of \$1,000,000 and a single loss deductible of \$50,000.

At the examination date, the Company was also a named insured under policies providing protection against loss from property and liability risks.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As of the examination date, the Company's pension stock ownership and insurance plans consisted of participation in programs initiated by Security National Financial Corporation for its employees and the employees of its subsidiaries. The insurance plans consisted of group medical and group term life. The benefit plans included a noncontributory employee stock ownership plan, a stock incentive plan, and a 401(k) savings and profit sharing plan. A provision was made in the financial statement for company obligations under such plans.

STATUTORY DEPOSITS

Pursuant to U.C.A. §31A-4-105, the Company was required, as of December 31, 2001, to maintain a deposit in the amount of its minimum capital requirement. The Company's minimum capital requirement was \$400,000 as determined by U.C.A. §31A-5-211(2)(a). Statutory deposits held through the Utah and Florida Insurance Departments for the primary benefit of all policyholders as of December 31, 2001, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Florida	Banc One Corp SUB Note 7.25%	\$ 499,177	\$ 514,055
	BankAmerica Corp SUB Notes 7.75%	499,466	513,805
	Toronto Dominion Bank SUB Note 6.15%	490,495	500,435
Utah	US Treasury Note Ser B 6.375%	1,021,528	1,050,037
	US Treasury Bonds 8.375%	53,562	54,266
	US Treasury Note 6.25%	200,925	208,876
	US Treasury Note 5.75%	248,650	261,875
Totals		<u>\$3,013,803</u>	<u>\$3,103,349</u>

Special deposits held through various state insurance departments and not held for the benefit of all policyholders as of December 31, 2001, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Arkansas	Chemical Bank NY SUB Notes 6.625%	\$ 149,276	\$ 157,556
California	AT&T Corp Note 6.75%	199,364	204,750
	US Treasury Bonds 8.375%	53,562	54,266
	US Treasury Bonds 5.875%	744,619	791,483
	US Treasury Bonds 6.5%	756,437	810,473
	Morgan Stanley Group Inc Notes 6.375%	499,641	527,470
Nevada	Salomon Inc SR Notes 6.875%	97,469	106,650
	Salomon Inc was Smith Barney HLDG 7.125%	100,028	107,191
New Mexico	Shell Oil Co Notes 6.7%	150,063	154,101
South Carolina	Allstate Corp Note 6.75%	50,258	52,523
	Pacific Bell Note 7%	99,319	106,655
	Wal Mart Stores Inc Notes 6.375%	50,057	51,975
Virginia	US Treasury Notes Ser B 2006 6.875%	300,394	330,657
Totals		<u>\$3,250,487</u>	<u>\$3,455,750</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2001, the Company's core business consisted of policies written by the former Security National Life Insurance Company. A significant portion of these policies was marketed as a means to fund funeral and interment related costs. As of the examination date, the following policies were issued:

Limited Pay Plans
Whole Life Paid up at 100
Single Premium Immediate Annuity
Flexible Premium Retirement Annuity

The whole life plan and the limited pay plans had maximum death benefits of \$5,000 for increasing benefit plans and \$10,000 for level benefit plans. Additional benefits available under the policies included a \$100 per \$1,000 of initial face amount, if death occurred more than 100 miles from the deceased's legal residence and an additional accidental death benefit equal to the face amount, if the accidental death occurred within ten years from the issued date. If the insured's death occurred while a passenger on or in a common carrier within ten years from the issued date, an additional benefit equal to twice the face amount was paid.

The Company also issued variations of these policy forms that reduce death benefits if death occurs in the first three years of coverage. The Company retained 100% of the policy risks under these policies.

Medical examinations were not required for the limited pay and whole life policies issued by the Company unless information in the application or inspection reports indicated a substandard risk.

The maximum face benefit under these policies was \$10,000 per life. The Company also issued a limited coverage, group "Water Sports Accident Insurance" policy. It covered insureds injured in any activity in a natural body of water for pleasure or sport up to a maximum of \$60,000.

The policy forms issued during the examination period were consistent with Department approved forms. The Company's risk retention limit was \$45,000 per life with a corridor for an additional \$5,000.

Territory and Plan of Operation

As of December 31, 2001, the Company was licensed in the following states:

Alaska	Illinois	Montana	South Carolina
Arizona	Indiana	Nebraska	South Dakota
Arkansas	Iowa	Nevada	Texas
California	Kansas	New Mexico	Utah
Colorado	Louisiana	North Dakota	Virginia
Delaware	Michigan	Oklahoma	Wisconsin
Florida	Minnesota	Oregon	Wyoming
Idaho			

The Company's agency force consisted of approximately 101 agents. Most of the Company's active agents produced in the states of Utah, Arizona, Oklahoma, Kansas and Texas.

Advertising and Sales Material

Sales materials used were primarily direct mail and point of sale brochures and flyers. These materials were distributed to consumers through general agencies, agents, and funeral homes.

Treatment of Policyholders

As of the period covered by the examination, the examiners encountered no items of concern regarding treatment of policyholders. In addition, the Company maintains some control over policyholder complaints.

REINSURANCE

Assumed

Effective June 30, 1999, the Company assumed from Menlo Life Insurance Company (MLIC) a 100% share of all MLIC in force life policies. The risks that were assumed consisted mainly of whole life with some term and accident and health policies. Reinsurance in force and reserves under this treaty at the examination date were approximately \$3.7 million and \$2.3 million, respectively.

Effective June 30, 1991, the Company assumed from Crown Life Insurance Company a 100% coinsurance share of certain in force risks under policies originally issued by Kennesaw Life and Accident Insurance Company of Atlanta, Georgia. Kennesaw Life and Accident Insurance Company was subsequently renamed Old Colony Life Insurance Company.

In 1994, Mid-West National Life Insurance Company of Tennessee and The MEGA Life and Health Insurance Company, subsidiaries of United Insurance Companies, Inc. (a Delaware Holding Company), acquired the policies of Crown Life Insurance Company and issued assumption certificates to the former Kennesaw Life policyholders. The Company agreed to the substitution of companies in amendments to the 1991 treaty with Crown Life and to the custodial agreement required under the treaty provisions.

Although assumed through a fronting arrangement, the business was serviced directly by the Company. The ceding companies received a fronting fee of 1% of premiums received. Reinsurance in force and reserves under this treaty, at the examination date, were approximately \$17.3 million and \$7 million, respectively. The treaty required a trust fund equal to the outstanding reserves and liabilities under the treaty.

Ceded

The Company did not cede any of the risk written under the funeral plan policies. Two automatic treaties covering life cessions provided the primary reinsurance for new policy issues. The treaties were with Transamerica Occidental Life Insurance Company and Cigna Re Corporation (formerly Connecticut General Life Insurance Company). These treaties provided for a retention of \$45,000 per life with a corridor for an additional \$5,000; \$25,000 net retention for accident insurance.

The Company has several treaties with small amounts of business in force and nominal amounts of reserve credits as of the examination date. These treaties are substantially in a run-off mode from treaties acquired in mergers.

ACCOUNTS AND RECORDS

The Company's accounting system utilized a centralized computer record processing system, supplemented by ancillary records maintained manually or on personal computers. Account balances were traced to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

Accounts and records deficiencies included the following:

- The Company nonadmitted \$949,370 of receivables for amounts advanced to affiliates originating in the early 1990's. Pursuant to U.C.A. §31A-16-106(1)(a) transactions between affiliates shall be fair and reasonable. The examination recommends that these advances to affiliates be brought current or written off. This was noted in the prior examination period.
- Called bonds of \$50,000, \$40,623 and a matured bond of \$15,000 were not redeemed until April and June 2002. These bonds were held as physical securities in a vault with a banking institution. The examination recommends that the Company redeem bonds within 15 days of the call or maturity date to facilitate the availability of the funds to fulfill policyholder obligations in accordance with SSAP No. 4 (3).
- The Company improperly reported remittances and items not allocated by offsetting credit suspense balances with unrelated debit suspense balances. This was noted in the prior examination report. In addition, this account erroneously contained agents credit balances and debit balances. In accordance with NAIC Annual Statement Instructions, agents credit balances should be reported as amounts held for agents accounts and agent's debit balances should be reported as amounts due from agents. No examination adjustment was reflected since this amount was determined immaterial.

- As of December 31, 2001, the Company reported a negative liability of \$20,054 as an offset to premium taxes payable. This was not consistent with SSAP No. 35 (9). No examination adjustment was reflected since the amount was determined as immaterial.
- Appraisal dates for four properties were not disclosed on the Schedule A - Part 1 contained in the 2001 Annual Statement. It is recommended that the Company disclose real estate appraisal dates in accordance with NAIC Annual Statement Instructions.
- The Company's asset adequacy analysis actuarial memorandum, signed in March 2003, disclosed no material changes for the period subsequent to December 31, 2001 through the date of the actuarial memorandum. In December 2002, the examination noted that the Company assumed 100% of ordinary life policies with liabilities of \$75,172,118 and assets of \$73,917,315. Pursuant to U.A.C. §R590-162-8(B)(6)(e), it is recommended that the Company properly disclose material change(s) in this memorandum.

U.C.A. §31A-4-113 requires each authorized insurer to file a true statement of its financial condition and affairs as of December 31 of the preceding year in accordance with the annual statement instructions and the accounting practices and procedures published by the NAIC. According to the NAIC annual statement instructions, a statement is not considered filed unless the information therein is complete and accurate.

FINANCIAL STATEMENT

The following financial statements are included in the examination report:

Balance Sheet as of December 31, 2001

Summary of Operations for the Year Ended December 31, 2001

Capital and Surplus for the Years 1999 through 2001

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

SECURITY NATIONAL LIFE INSURANCE COMPANY
Balance Sheet as of
December 31, 2001

ASSETS

	<u>Amount</u>	<u>Notes</u>
Bonds	\$ 24,602,165	
Preferred stocks	80,125	
Common stocks	10,067,157	(1)
Mortgage loans on real estate	14,498,249	(2)
Real estate	9,104,495	(3)
Policy loans	3,096,752	
Cash and short-term investments	44,874,720	(2)
Other invested assets	295,855	
Electronic data processing equipment and software	124,065	(4)
Federal and foreign income tax recoverable	389,107	
Guaranty funds receivable or on deposit	62,429	(5)
Life insurance premiums and annuity considerations deferred and uncollected	2,056,952	
Accident and health premiums due and unpaid	4,947	
Investment income due and accrued	825,651	(6)
Receivable from parent, subsidiaries and affiliates	41,191	(7)
Aggregate write-ins for other than invested assets	171,185	(7)
Total assets	<u>\$ 110,295,045</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserves for life policies	\$87,200,300	
Aggregate reserves for accident and health policies	210,763	
Liability for deposit-type contracts	2,968,158	
Policy and contract claims - Life	630,683	(8)
Policy and contract claims - Accident and health	10,000	
Dividends not yet apportioned	73,305	
Coupons and similar benefits	1,018	
Premiums and annuity considerations received in advance	18,968	
Interest maintenance reserve	643,781	
General expenses due or accrued	168,263	
Taxes, licenses, and fees due or accrued, excluding federal income taxes	57,639	
Federal and foreign income taxes	12,271	
Unearned investment income	82,920	
Amounts withheld or retained by company as agent or trustee	356,210	(9)
Amounts held for agents' account	21,575	
Remittances and items not allocated	(20,121)	
Asset valuation reserve	1,974,808	(10)
Aggregate write-ins for other liabilities	79,413	(9)
Total liabilities	<u>\$ 94,489,954</u>	
Common capital stock	2,550,000	
Surplus notes	3,000,000	
Gross paid in and contributed surplus	4,922,696	
Unassigned funds (surplus)	5,332,395	
Surplus	<u>13,255,091</u>	
Total capital and surplus	<u>15,805,091</u>	
Total liabilities, capital and surplus	<u>\$ 110,295,045</u>	

SECURITY NATIONAL LIFE INSURANCE COMPANY
Summary of Operations
for the Year Ended December 31, 2001

Premium and annuity considerations	\$ 8,957,025
Net investment income	6,614,077
Amortization of interest maintenance reserve	175,385
Miscellaneous income	39,790
Total	<u>15,786,277</u>
Death benefits	2,994,257
Matured endowments	94,828
Annuity benefits	3,705,371
Disability benefits and benefits under accident and health policies	162,067
Coupons, guaranteed annual pur endowments and similar benefits	637
Surrender benefits and withdrawals for life contracts	871,650
Interest and adjustments of policy or deposit-type contract funds	435,488
Increase in aggregate reserves for life and accident and health policies and contracts	968,988
Total	<u>9,233,286</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds	1,596,970
Commissions and expense allowances on reinsurance assumed	32,755
General insurance expenses	2,680,232
Insurance taxes, licenses and fees, excluding federal income taxes	307,631
Increase in loading on deferred and uncollected premium	(53,822)
Total	<u>13,797,052</u>
Net gains from operations before dividends to policyholders and federal income taxes	1,989,225
Dividends to policyholders	42,645
Net gains from operations after dividends to policyholders and before federal income taxes	1,946,580
Federal income taxes incurred	35,266
Net gains from operations after dividends to policyholders and federal income taxes and before realized capital gains	1,911,314
Net realized capital gains	(9,124)
Net income	<u><u>\$ 1,902,190</u></u>

SECURITY NATIONAL LIFE INSURANCE COMPANY
Capital and Surplus
for the Years 1999 through 2001

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Capital and surplus, December 31, previous year	\$ 12,083,747	\$ 12,089,618	\$ 14,309,515
Net Income or (loss)	628,538	796,047	1,902,190
Change in net unrealized capital gains	69,806	(573,923)	(945,196)
Change in net deferred income tax			389,110
Change in nonadmitted assets	(298,690)	74,085	3,061,206
Change in reserve on account of change in valuation basis		50,633	
Change in asset valuation reserve	(393,783)	873,055	163,964
Change in surplus notes		1,000,000	
Aggregate write-ins for gains or losses in surplus			(3,075,698)
Net change in capital and surplus for the year	<u>5,871</u>	<u>2,219,897</u>	<u>1,495,576</u>
Capital and surplus, December 31, current year	<u>\$ 12,089,618</u>	<u>\$ 14,309,515</u>	<u>\$ 15,805,091</u>

COMMENTS ON FINANCIAL STATEMENT

(1) Common stocks \$10,067,157

The amount reported by the Company, \$10,322,028, was decreased by \$254,871. The decrease consisted of 80,899 shares of Southern Security Life Insurance Company (SSLIC) stock. This security was maintained by a brokerage firm, in the street name of the firm. Pursuant to U.C.A. §31A-4-108(1), the examination did not recognize the security as an asset, since it was not held in the Company's name. Subsequently, on July 1, 2003, the Company transferred this security to a custodial trust account.

(2) Cash and short-term investments \$44,874,720

As of December 31, 2001, the Company reported \$45,865,654. This consisted of \$9,031,115 in cash and \$36,834,539 in short-term investments. Pursuant to SSAP No. 2, the examination reclassified \$990,934 from short-term investments to mortgage loans since the investment maturity was over one-year.

The Company's cash accounts included two mutual fund investment sweep accounts. Since the funds in the accounts were invested, at times, with third parties and not in the Company's own name it is recommended the Company execute a custodial agreement to bring the arrangement in compliance with U.C.A. §31A-4-108 (1).

U.C.A. §31A-4-108 (1) requires an insurer shall hold all investments and deposits of its funds in its own name except for securities kept under a custodial agreement or trust agreement with a bank, securities firm's trust company, or trust company approved by the Commissioner, which may be issued in the name of a nominee of the bank, securities firm's trust company, or trust company. In addition, Utah Annotated Code (U.A.C.) §R590-178 requires a custodial agreement between an insurer and the custodian of its investments.

(3) Real estate \$9,104,495

The amount reported by the Company, \$9,355,473, was decreased by \$250,978 for examination purposes. The examination did not recognize one property as an asset because the Company did not provide written evidence of the generation of substantial income by the property during the examination period pursuant to U.C.A. §31A-18-105(8). Subsequently in July 2003, the Company executed an agreement effective February 16, 1999, for exchange of services of \$2,000 per month on the property.

(4) Electronic data processing equipment and software \$124,065

The Company reported \$205,097 as data processing equipment and operating system software depreciated over a 5-year period. This was not consistent with SSAP No. 79 which states such assets will be depreciated over the lesser of their useful life or three years. The examination reduced the reported asset by \$49,154 to reflect the difference between the three and five year calculation. In addition, four assets did not qualify as electronic data processing equipment or operating software. Pursuant to SSAP No. 16 (2), the amount of these assets, \$31,878, were nonadmitted for examination purposes.

(5) Guaranty funds receivable or on deposit \$62,429

The Company did not accrue a receivable for a \$62,429 refund from the Utah Guaranty Association which was collected in March 2002. Pursuant to SSAP No. 4 the asset was recognized for examination purposes.

(6) Investment income due and accrued \$825,651

The Company reported \$961,665 which included \$39,788 in accrued interest on mortgage loans which were 90 days past due. The Company nonadmitted collateral loans, however it admitted the associated accrued interest in the amount of \$96,226. The reporting of amounts over 90 days past due is not in compliance with SSAP No. 34 (5)(b). For examination purposes the referenced amounts were not allowed.

(7) Aggregate write-ins for other than invested assets \$171,185

The amount reported by the Company as aggregate write-ins for other than invested assets was \$236,776. The examination determined that \$41,191 was for services provided to the parent company. This was reclassified to receivable from parents, subsidiaries and affiliates in accordance with NAIC Annual Statement Instructions. In addition, the examination nonadmitted a prepaid expense of \$24,400 pursuant to SSAP No. 29 (2).

(8) Policy and contract claims: Life \$630,683

The Company reported a policy and contract claims liability of \$933,596 as of December 31, 2001. The examination determined the claims liability to be \$630,683 based on a review of claims paid in 2002 and incurred prior to 2002.

(9) Amounts withheld or retained by company as agent or trustee \$356,210

The examination reclassified \$279,874 due under deferred compensation arrangements reported as aggregate write-ins for liabilities to amounts withheld or retained by the company as agent or trustee in accordance with SSAP No. 67.

(10) Asset valuation reserve \$1,974,808

The Company reported \$1,855,247. The Company reported the minimum reserve factors instead of calculating the experience adjustment factor (EAF), which was not consistent with the NAIC annual statement instructions. At the examinations request, the Company recalculated the EAF. Based on the Company's recalculation of the EAF, the examination reduced the AVR by \$119,561.

(11) Change in nonadmitted assets \$3,061,206

Receivables from inactive agents in the amount of \$1,091,169 and a \$2,000,000 receivable from Specialty Marketing Associates, a former affiliate of Capital Investors Life Insurance Company, were determined to be impaired in accordance with SSAP No. 5. The receivables had been nonadmitted on the Company's 2001 Annual Statement. They were backed out of change in nonadmitted assets and written-off directly to aggregate write-ins for gains and losses in surplus because they were impaired in a prior period.

CAPITAL AND SURPLUS

The Company's capital and surplus was determined to be \$511,514 less than reported in the Company's annual statement as of December 31, 2001. The following schedule identifies the examination changes:

<u>Description</u>	<u>Annual Statement</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>	<u>Notes</u>
Common stocks	\$ 10,322,028	\$ 10,067,157	\$ (254,871)	(1)
Cash and short-term investments	45,865,654	44,874,720	(990,934)	(2)
Mortgage loans	13,507,315	14,498,249	990,934	(2)
Real estate	9,355,473	9,104,495	(250,978)	(3)
Electronic data processing equipment	205,097	124,065	(81,032)	(4)
Guaranty funds receivable	0	62,429	62,429	(5)
Investment income due and accrued	961,665	825,651	(136,014)	(6)
Receivable from parent, subsidiaries, and affiliates	0	41,191	41,191	(7)
Aggregate write-ins for other than invested assets	236,776	171,185	(65,591)	(7)
Policy and contract claims: Life	923,596	630,683	292,913	(8)
Amounts withheld or retained by Company	76,426	356,210	(279,784)	(9)
Aggregate write-ins for liabilities	359,197	79,413	279,784	(9)
Asset valuation reserve	1,855,247	1,974,808	(119,561)	(10)
Aggregate write-ins for gains and losses in surplus	15,471	(3,075,698)	(3,091,169)	(11)
Change in nonadmitted assets	26,315	3,117,484	* 3,091,169	(11)
Total changes			<u>(511,514)</u>	
Capital and surplus per Company			<u>16,316,605</u>	
Capital and surplus per Examination			<u><u>\$ 15,805,091</u></u>	

* The change in nonadmitted assets reported in the statement of "Capital and Surplus" contained in this examination report is \$3,061,206. The change in nonadmitted assets here reported, \$3,117,484, is adjusted for changes in the account already reflected under Notes 4 and 7, above.

U.C.A. §31A-8-209(1) requires the Company to maintain minimum capital in the amount of \$400,000. In accordance with U.C.A. 31A-17 Part 6, the Company reported total adjusted capital of \$18,801,525 and an authorized control level risk-based capital (RBC) requirement of \$3,130,280 as of December 31, 2001.

The examination determined total adjusted capital to be \$17,835,809. The examination accepted the Company's authorized control level RBC because adjustments made for examination purposes would not have a significant effect on the RBC requirement.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

1. The Company did not provide evidence to the examination of executive or committee minutes from January 1999, through July 2000. U.C.A. §16-10a-1601 requires a corporation to keep as permanent records all actions taken on behalf of the corporation by a committee of the board of directors. (HISTORY -Corporate Records)
2. Two individuals served as directors from December 1999, through July 2000 who were not appointed by the shareholder. This is not consistent with the Company's bylaws. (HISTORY -Corporate Records)
3. Accounts and records deficiencies were noted during the examination. (ACCOUNTS AND RECORDS)
4. Receivables from inactive agents in the amount of \$1,091,169 and a \$2,000,000 receivable from Specialty Marketing Associates, a former affiliate of Capital Investors Life Insurance Company, were determined to be impaired in accordance with SSAP No. 5. These receivables were backed out of change in nonadmitted assets and written-off directly to aggregate write-ins for gains and losses in surplus. (Comments on Financial Statement - Change in nonadmitted assets)
5. The Company's capital and surplus was determined to be \$15,805,091 for examination purposes. The Company's minimum capital requirement was determined to be \$400,000. The Company's total adjusted capital was \$17,835,809 and its authorized control level risk-based capital requirement was accepted to be \$3,130,280. (CAPITAL AND SURPLUS)

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged. Mr. Allen J. Hart, CFE, Mr. Neil K. Miner, CFE, and Ms. Colette Reddoor, CFE, representing the Utah Insurance Department, participated in the examination. In addition to the undersigned, Ms. Lorraine Mayne, FSA, MAAA, of Milliman and Robertson, Inc., conducted the actuarial phases of the examination.

Respectfully submitted,

David A. Martinez, CFE
Examiner in Charge, representing the
Utah Insurance Department